

**SPRINGVALE-BEAR CREEK
SEWAGE DISPOSAL AUTHORITY**

FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
FINANCIAL STATEMENTS:	
STATEMENTS OF NET ASSETS	6
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-14
ADDITIONAL INFORMATION:	
SCHEDULES OF REPAIR AND REPLACEMENT ACTIVITY	15
SCHEDULE OF INDEBTEDNESS	16



Smolinski & Christman, P.C.
Certified Public Accountants

Janice W. Smolinski, C.P.A.
Kevin R. Christman, C.P.A.
Mona C. O'Neil, C.P.A.
Daniel D. Rasmussen, C.P.A.
Ted M. Teller, C.P.A.

555 Michigan Street
Petoskey, Michigan 49770
(231) 347-5555
Fax (231) 347-5639

Adam B. Caron, C.P.A.
Troy A. Slater, C.P.A.

June 24, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the

Springvale-Bear Creek Sewage Disposal Authority:

We have audited the financial statements of the Springvale-Bear Creek Sewage Disposal Authority as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Springvale-Bear Creek Sewage Disposal Authority as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
June 24, 2008

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Smolinski & Christman, P.C.

SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the years ended December 31, 2007 and 2006

This section of the Springvale-Bear Creek Sewage Disposal Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the years ended December 31, 2007 and 2006. It should be read in conjunction with the Authority's financial statements which immediately follow.

FACILITY AND OPERATIONS

The Springvale-Bear Creek Sewage Disposal Authority was created for the purpose, of acquiring, constructing, financing and operating a sewage collection system for Springvale and Bear Creek townships. The Authority is an incorporated intramunicipality founded in 1973 under the provisions of Act 233, Michigan Public Acts of 1955, as amended. Control of the various operations of the Authority is vested in the Board of Trustees. The board consists of five members, four from Bear Creek Township and one from Springvale Township.

The Authority has entered into agreements with the City of Petoskey and the Harbor Springs Area Sewage Disposal Authority to receive, transport, treat and dispose of the sewage from the Authority collection system.

SOURCES OF REVENUE

The Authority derives its revenue from charges to each Township for operation of the sewage collection system. Sewerage rates are set at a level to provide for all operating costs, including billings from the City of Petoskey and Harbor Springs Area Sewage Disposal Authority for transportation, treatment and disposal services. The Authority also derives revenue to provide for an accumulation of funds for system and equipment repair and replacement.

FINANCIAL STATEMENT OVERVIEW

The Authority's annual report includes three financial statements that provide both long-term and short-term information about the Authority's financial status. These statements are presented using the accrual basis of accounting.

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the Authority's capital structure and assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses, and Changes in Net Assets includes all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the years ended December 31, 2007 and 2006

CONDENSED FINANCIAL INFORMATION

The following table represents condensed information regarding the Authority's financial position at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Current assets	\$ 133,640	\$ 97,606
Restricted and designated assets	1,525,045	1,608,242
Capital assets, net	4,383,788	4,089,906
Other assets	<u>4,949</u>	<u>9,898</u>
Total assets	<u>\$6,047,422</u>	<u>\$5,805,652</u>
Current liabilities	\$ 113,878	\$ 99,990
Current liabilities payable from restricted assets	102,667	87,492
Long-term liabilities payable from restricted assets	<u>1,257,000</u>	<u>1,362,600</u>
Total liabilities	<u>\$1,473,545</u>	<u>\$1,550,082</u>
Invested in capital assets	\$4,383,788	\$4,089,906
Restricted for debt retirement	42,441	40,616
Unrestricted	<u>147,648</u>	<u>125,048</u>
Total net assets	<u>\$4,573,877</u>	<u>\$4,255,570</u>

The following table indicates that operating expenses exceeded operating revenues, excluding depreciation and amortization for the year. A portion of depreciation expense is funded annually by separate repair and replacement billings. However, it is anticipated that the Authority will continue to show operating losses in future years because a majority of the depreciation and amortization expense relates to the sewer collection system and the investment in sewage treatment plant capacity.

	<u>2007</u>	<u>2006</u>
Operating revenues	\$637,503	\$ 545,957
Operating expenses:		
Pumping	543,374	520,713
General and administrative	<u>94,539</u>	<u>25,738</u>
Total operating expenses	<u>637,913</u>	<u>546,451</u>
Operating loss before depreciation and amortization	(410)	(494)
Depreciation and amortization expense	<u>249,354</u>	<u>241,809</u>
Operating loss	(249,764)	(242,303)
Non-operating revenues and expenses (net)	<u>24,835</u>	<u>35,398</u>
Loss before private contribution	(224,929)	(206,905)
Private contribution	<u>543,236</u>	<u>-</u>
Net income (loss)	<u>\$318,307</u>	<u>\$(206,905)</u>

SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the years ended December 31, 2007 and 2006

CONDENSED FINANCIAL INFORMATION (Continued)

Operating revenues for the year increased approximately \$91,500 from prior year. The increase in revenues corresponds with a net increase in operating costs that are billed to the Townships. The net increase consisted of an increase in pumping expenses of approximately \$22,500 and an increase in general and administrative expenses of approximately \$69,000 from the prior year. The increase in general and administrative expenses is from an increase in legal expenses during the year.

The Authority received a private contribution of approximately \$543,000 in 2007. The contribution consisted of an addition to the sewer system in Bear Creek Township that was built and paid for by a private developer and deeded to the Authority. The contribution was valued at the estimated fair market value of the sewer system at the date of donation.

CAPITAL IMPROVEMENTS AND FUNDING REQUIREMENTS

The Authority began setting aside funds for repair and replacement purposes several years ago. The Authority used approximately \$17,000 and \$2,300 of these funds for system upgrades, equipment and repairs in 2007 and 2006, respectively. Revenues for this purpose are billed annually and totaled \$40,934 in 2007 and \$37,416 in 2006. The total amount available for repair and replacement at December 31, 2007 and 2006 was \$122,537 and \$96,387, respectively.

DEBT STRUCTURE

The Authority has one outstanding bond issue at December 31, 2007 and 2006 totaling \$160,000 and \$225,000, respectively. Also, the Authority has an outstanding liability for 16.8 percent of the \$7,500,000 City of Petoskey bond issue in 2001 for expansion of the City's facilities. The total liability amount at December 31, 2007 was \$1,195,600 and at December 31, 2006 it was \$1,219,400.

The Authority's contractual agreements with the townships require them to reimburse the Authority for all principal and interest costs associated with the bond issue and the liability due to the City of Petoskey.

CONTACTING THE AUTHORITY'S MANAGEMENT

The purpose of this management discussion is to provide an overview of the current and prospective financial condition of the Authority's operations and physical assets. Questions concerning this report or requests for additional information should be addressed to the Board Chairman, 373 North Division Road, Petoskey, Michigan 49770.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF NET ASSETS
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 35,534	\$ 36,589
Accounts receivable	98,106	41,626
Due from Harbor Springs Area Sewage Disposal Authority	-	19,391
Total current assets	<u>133,640</u>	<u>97,606</u>
RESTRICTED AND DESIGNATED ASSETS:		
Restricted assets, debt retirement	1,402,508	1,491,108
Designated assets, repair and replacement	<u>122,537</u>	<u>117,134</u>
Total restricted and designated assets	1,525,045	1,608,242
CAPITAL ASSETS, net of accumulated depreciation	4,383,788	4,089,906
OTHER ASSETS, unamortized bond expenses	<u>4,949</u>	<u>9,898</u>
Total assets	<u><u>\$ 6,047,422</u></u>	<u><u>\$ 5,805,652</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 113,878	\$ 59,852
Due to Bear Creek Township	-	40,138
Total current liabilities	<u>113,878</u>	<u>99,990</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	4,067	5,692
Long-term debt due within one year	65,000	65,000
Due to City of Petoskey within one year	<u>33,600</u>	<u>16,800</u>
Total current liabilities payable from restricted assets	102,667	87,492
LONG-TERM LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Long-term debt, net of current portion	95,000	160,000
Due to City of Petoskey, net of current portion	<u>1,162,000</u>	<u>1,202,600</u>
Total long-term liabilities payable from restricted assets	1,257,000	1,362,600
Total liabilities	1,473,545	1,550,082
NET ASSETS:		
Invested in capital assets	4,383,788	4,089,906
Restricted for debt retirement	42,441	40,616
Unrestricted	<u>147,648</u>	<u>125,048</u>
Total net assets	<u>4,573,877</u>	<u>4,255,570</u>
Total liabilities and net assets	<u><u>\$ 6,047,422</u></u>	<u><u>\$ 5,805,652</u></u>

The accompanying notes are a part of the financial statements.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES	\$ 637,503	\$ 545,957
OPERATING EXPENSES:		
Pumping	543,374	520,713
General and administrative:		
Legal and accounting	86,005	16,586
Insurance	8,271	8,876
Miscellaneous	263	276
Total operating expenses	<u>637,913</u>	<u>546,451</u>
Operating loss before depreciation and amortization	(410)	(494)
Depreciation and amortization expense	<u>249,354</u>	<u>241,809</u>
Operating loss	(249,764)	(242,303)
NON-OPERATING REVENUES (EXPENSES):		
Contribution by local units to defray		
interest expense and bond fee	13,813	18,688
Repair and replacement income	40,934	37,416
Interest income	5,878	5,208
Interest expense and bond fee	(13,813)	(18,688)
Repair and replacement expense	(17,028)	(2,277)
Amortization, bond expenses	<u>(4,949)</u>	<u>(4,949)</u>
Total non-operating revenues (expenses)	<u>24,835</u>	<u>35,398</u>
Loss before private contribution	(224,929)	(206,905)
Private contribution	<u>543,236</u>	<u>-</u>
Net income (loss)	318,307	(206,905)
NET ASSETS, Beginning of year	<u>4,255,570</u>	<u>4,462,475</u>
NET ASSETS, End of year	<u>\$ 4,573,877</u>	<u>\$ 4,255,570</u>

The accompanying notes are a part of the financial statements.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Fees and services	\$ 600,414	\$ 565,660
Payments for goods and services	<u>(624,025)</u>	<u>(546,861)</u>
Net cash provided by (used in) operating activities	(23,611)	18,799
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY:		
Repair and replacement income	39,318	37,416
Repair and replacement expense	<u>(17,028)</u>	<u>(43,328)</u>
Net cash provided by (used in) noncapital financing activities	22,290	(5,912)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Received from townships for bond retirement and liability payments	88,800	76,900
Contribution by townships to defray interest and bond fee expenses	20,313	20,313
Retirement of long-term debt	(65,000)	(65,000)
Payments on long-term liability	(23,800)	(11,900)
Interest and bond fee expense	<u>(20,313)</u>	<u>(20,313)</u>
Net cash used in capital and related financing activities	-	-
INVESTING ACTIVITIES:		
Acquisition of capital assets	-	(6,500)
Purchase of certificates of deposit	(83,984)	(80,243)
Redemption of certificates of deposit	82,168	78,625
Interest earned	<u>5,878</u>	<u>5,208</u>
Net cash provided by (used in) investing activities	4,062	(2,910)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,741	9,977
CASH AND CASH EQUIVALENTS, Beginning of year	<u>153,442</u>	<u>143,465</u>
CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ 156,183</u></u>	<u><u>\$ 153,442</u></u>
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Unrestricted	\$ 35,534	\$ 36,589
Restricted for debt retirement	52	43
Designated for repair and replacement	<u>120,597</u>	<u>116,810</u>
Total cash and cash equivalents	<u><u>\$ 156,183</u></u>	<u><u>\$ 153,442</u></u>
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (249,764)	\$ (242,303)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	249,354	241,809
(Increase) decrease in accounts receivable, due from the City of Petoskey and due from (to) Harbor Springs Area Sewage Disposal Authority	(37,089)	19,703
Increase (decrease) in accounts payable and due to Bear Creek Township	<u>13,888</u>	<u>(410)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (23,611)</u></u>	<u><u>\$ 18,799</u></u>
NON-CASH INVESTING ACTIVITIES:		
Donation of capital assets	<u><u>\$ 543,236</u></u>	<u><u>\$ -</u></u>

The accompanying notes are a part of the financial statements.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

NOTE A - NATURE OF ENTITY:

The Springvale-Bear Creek Sewage Disposal Authority (the Authority) was created as a corporate instrumentality in 1973 by agreement between the Townships of Springvale and Bear Creek, Emmet County, under provisions of Act 233, Michigan Public Acts of 1955, as amended, for the purpose of acquiring, constructing, financing and operating a sewage collection system to serve the two Townships.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Authority accounts for operations that are financed and operating in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges. Specific accounting policies are described in the following paragraphs.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

Basis of Accounting

The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

Operating Revenue

The Authority derives its revenue from charges to each Township for operation of the sewage collection system. Sewerage rates are set at a level to provide for all operating costs, including billings from the City of Petoskey and Harbor Springs Area Sewage Disposal Authority for transportation, treatment and disposal services, and to provide for an accumulation of funds for eventual replacement of the system and equipment.

Each Township is responsible for billing sewage customers located within its boundaries.

Capital Assets

Land, sewage collection system and other fixed assets are recorded at cost or, if donated, at their estimated fair value at the time of donation. The system is being depreciated under the straight-line method over its estimated useful life of 40 years while the equipment is being depreciated over its shorter estimated useful life.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The investment in capacity of sewage treatment plant represent payments to the City of Petoskey to assure the availability of capacity at the Petoskey sewage treatment plant. This asset is amortized under the straight-line method. The 1977 investment is amortized over the period of the time of the Authority's agreement with the City. The 2001 investment is amortized over the estimated useful life of the system additions. The following are the amortization periods for the investment:

	<u>Amortization Period</u>
1977 investment	37 years
2001 investment	25 years

Provisions for depreciation of \$195,344 and amortization of \$54,010 totaling \$249,354 in 2007 and depreciation of \$187,799 and amortization of \$54,010 totaling \$241,809 in 2006 have been recorded in the statements of revenue, expenses and changes in net assets.

Cash and Cash Equivalents

The Authority considers certificates of deposit with maturity dates of three months or less at the date of purchase to be cash equivalents.

Other Assets

Bond expenses are being amortized under the straight-line method over the term of the bonds. The statements of revenues, expenses, and changes in net assets reflects \$4,949 for amortization of bond expense in 2007 and 2006.

Restricted and Designated Assets

Assets restricted by provisions of bond resolutions for the payment of bond interest are recorded as restricted assets while those designated by the Authority's Board of Trustees for repair and replacement are recorded as designated assets. Any investment earnings of the restricted or designated funds are recorded as income and added to the fund. Disbursements are made only for the restricted or designated purposes.

City of Petoskey Agreement

Th Authority has an agreement with the City of Petoskey to receive, transport, treat and dispose of the Authority's wastewater at the City's treatment facility. The agreement stipulates that the Authority shall participate and pay 16.8 percent of any future additions to the facility. The City incurred \$7,500,000 of debt on June 1, 2001 to finance a facility expansion. The balance sheet at December 31, 2007 and 2006, reflects a liability of \$1,195,600 and \$1,219,400, respectively, and an intangible asset net of accumulated amortization of \$1,058,400 as of December 31, 2007 and \$1,108,800 as of December 31, 2006 for the Authority's share of the total cost. The Authority reimburses the City for its share of the bond principal and interest cost in accordance with the City's bond payment requirements. The interest portion of the reimbursement is included in pumping expense as an operating expense. A total of \$57,494 and \$58,440 of interest expense was reimbursed for the years ended December 31, 2007 and 2006, respectively, and is included in operating expenses. The reimbursement of bond principal, amounted to \$23,800 for the year ended December 31, 2007 and \$11,900 for the year ended December 31, 2006.



SPRINVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions for Debt Retirement

Amounts due from participating local governmental units to pay outstanding bond principal are recorded as receivables on the balance sheet. Payments are due at designated dates and amounts over the lives of the bonds and are to be applied against the receivable when received.

In addition to the contract payments, the Townships are to provide for the interest expense and bond costs incurred on long-term debt. Amounts to defray interest and bond costs are recorded as other income. Any interest payments due from the Townships at year end are recorded as interest receivable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE C - CREDIT RISK:

The Authority maintains its checking accounts, savings accounts and certificates of deposit with financial institutions that insure cash balances of up to \$100,000 through the Federal Deposit Insurance Corporation. The following is a summary of the Authority's deposits (including cash, cash equivalents and certificates of deposit) at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Bank balance	\$240,194	\$237,310
Insured by Federal Deposit Insurance Corporation	<u>142,389</u>	<u>228,218</u>
Uninsured and uncollateralized balance	<u>\$ 97,805</u>	<u>\$ 9,092</u>

Michigan Compiled Laws, Section 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan association which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority has not formally adopted deposit and investment policies.

The Authority's deposits are in accordance with statutory authority.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

NOTE D - RESTRICTED ASSETS:

Under terms of a contractual agreement between the Authority and the Townships of Springvale and Bear Creek, the Townships have agreed to reimburse the Authority for all debt service costs associated with the Authority's refunding bond issue and the liability to the City of Petoskey for its share of the City's bond issue. All payments received for debt service costs are required to be restricted for debt retirement.

The reimbursement for the refunding bond debt service costs is required to be paid by March 1 and September 1 in an amount equal to bond principal, interest and bond paying agent fees payable on that date. The reimbursement is apportioned 5 percent to Springvale township and 95 to Bear Creek Township.

The reimbursement for the City of Petoskey is apportioned 100 percent to Bear Creek Township. The annual debt service costs are billed monthly to the Authority by the City and are included by the Authority in its monthly billing to the Township.

Each Township has pledged its full faith and credit and an amount not exceeding 25 percent of the monies each receives annually as a return of state sales tax for payment of all debt service costs. In addition, each Township has agreed, if necessary, to include in its annual property tax levy an amount sufficient to make the stipulated payments.

The following is a summary of the assets that are restricted for debt retirement at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash	\$ 52	\$ 43
Certificate of deposit	42,389	40,573
Receivable from local government units for:		
Accrued bond interest and expenses	4,467	6,092
Bond principal repayment	160,000	225,000
Due to City of Petoskey	<u>1,195,600</u>	<u>1,219,400</u>
Total	<u>\$1,402,508</u>	<u>\$1,491,108</u>

NOTE E - DESIGNATED ASSETS:

The following is a summary of assets that are designated for repair and replacement at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash	\$120,597	\$116,810
Receivable	<u>1,940</u>	<u>324</u>
Total	<u>\$122,537</u>	<u>\$117,134</u>



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

NOTE F - CAPITAL ASSETS:

The following is a summary of the changes in the various capital asset categories for the year ended December 31, 2007:

	Balance <u>January 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2007</u>
Land and land rights	\$ 124,149	\$ -	\$ -	\$ 124,149
Sewage utility plant and collection system	7,427,025	543,236	-	7,970,261
Investment in capacity of sewage treatment plant	1,394,473	-	-	1,394,473
Spare motor	11,538	-	-	11,538
Transportation, shop and office equipment	<u>67,292</u>	<u>-</u>	<u>-</u>	<u>67,292</u>
Total	9,024,477	543,236	-	9,567,713
Accumulated depreciation	<u>4,934,571</u>	<u>249,354</u>	<u>-</u>	<u>5,183,925</u>
Capital assets, net	<u>\$4,089,906</u>	<u>\$293,882</u>	<u>\$ -</u>	<u>\$4,383,788</u>

The following is a summary of the changes in the various capital asset categories for the year ended December 31, 2006:

	Balance <u>January 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2006</u>
Land and land rights	\$ 124,149	\$ -	\$ -	\$ 124,149
Sewage utility plant and collection system	7,427,025	-	-	7,427,025
Investment in capacity of sewage treatment plant	1,394,473	-	-	1,394,473
Spare motor	11,538	-	-	11,538
Transportation, shop and office equipment	<u>67,292</u>	<u>-</u>	<u>-</u>	<u>67,292</u>
Total	9,024,477	-	-	9,024,477
Accumulated depreciation	<u>4,692,762</u>	<u>241,809</u>	<u>-</u>	<u>4,934,571</u>
Capital assets, net	<u>\$4,331,715</u>	<u>\$(241,809)</u>	<u>\$ -</u>	<u>\$4,089,906</u>

NOTE G - LONG-TERM DEBT:

The following is a summary of long-term debt transactions for the years ended December 31, 2007 and 2006:

	Balance <u>01/01/2006</u>	<u>Retirements</u>	Balance <u>12/31/2006</u>	<u>Retirements</u>	Balance <u>12/31/2007</u>
Series 1989 Refunding Bonds	<u>\$290,000</u>	<u>\$ 65,000</u>	<u>\$225,000</u>	<u>\$ 65,000</u>	<u>\$160,000</u>



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

NOTE G - LONG-TERM DEBT (Continued):

Long-term debt consists of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
\$1,310,000 Series 1989 Refunding Bonds due in annual installments of \$65,000 to \$95,000 plus interest of 7.500 to 7.625 percent. The bonds mature on March 1, 2009.	<u>\$160,000</u>	<u>\$225,000</u>

The annual requirements to amortize all debt outstanding as of December 31, 2007, including interest payments of \$13,344, are as follows:

Year ending <u>December 31,</u>	
2008	\$ 74,722
2009	<u>98,622</u>
Total	<u>\$173,344</u>

Payment of bond principal, interest and service costs are provided, under the terms of contractual agreements, with the local governmental units, as explained in Note D.

NOTE H - UNRESTRICTED NET ASSETS:

The following is a summary of unrestricted net assets at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Designated by Board of Trustees for future repair and replacement	\$122,537	\$ 96,387
Undesignated	<u>25,111</u>	<u>28,711</u>
Total unrestricted net assets	<u>\$147,648</u>	<u>\$125,098</u>

NOTE I - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The Authority carries commercial insurance to cover its risk of loss.

SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
SCHEDULES OF REPAIR AND REPLACEMENT ACTIVITY
for the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
BALANCE, beginning of year	\$ 96,387	\$ 59,106
ADDITIONS:		
Billings	40,934	37,416
Interest income	<u>2,244</u>	<u>2,142</u>
	139,565	98,664
REDUCTIONS:		
Repairs, net of insurance proceeds in 2006	<u>17,028</u>	<u>2,277</u>
BALANCE, end of year	<u><u>\$ 122,537</u></u>	<u><u>\$ 96,387</u></u>
BALANCE CONSISTS OF THE FOLLOWING:		
Designated assets	\$ 122,537	\$ 117,134
Due to Bear Creek Township	<u>-</u>	<u>(20,747)</u>
Net balance	<u><u>\$ 122,537</u></u>	<u><u>\$ 96,387</u></u>



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF INDEBTEDNESS
December 31, 2007

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity March 1</u>	<u>Total Principal Outstanding</u>	<u>Annual Interest Payable</u>
Project No. 1						
Refunding Bonds	March 1, 1989	\$ 1,310,000	7.625	2008	\$ 65,000	\$ 9,722
			7.625	2009	<u>95,000</u>	<u>3,622</u>
					<u>\$ 160,000</u>	<u>\$ 13,344</u>

NOTE: The Bonds are subject to early redemption at the option of and in the order determined by the Authority on any interest payment date. There is no premium for early redemption.



Smolinski & Christman, P.C.
Certified Public Accountants

Janice W. Smolinski, C.P.A.
Kevin R. Christman, C.P.A.
Mona C. O'Neil, C.P.A.
Daniel D. Rasmussen, C.P.A.
Ted M. Teller, C.P.A.

555 Michigan Street
Petoskey, Michigan 49770
(231) 347-5555
Fax (231) 347-5639

Adam B. Caron, C.P.A.
Troy A. Slater, C.P.A.

June 24, 2008

To the Board of Directors of the

Springvale-Bear Creek Sewage Disposal Authority:

We have completed our audit of the financial statements of the Springvale-Bear Creek Sewage Disposal Authority (the Authority) for the year ended December 31, 2007, and have issued our report thereon dated June 24, 2008. In planning and performing our audit, of the financial statements, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of the following matters that represent an opportunity for strengthening operating controls and efficiencies. This letter does not affect our report dated June 24, 2008, on the financial statements of Springvale-Bear Creek Sewage Disposal Authority. Our comments are summarized below.

Compliance with State's Uniform Chart of Accounts

The Authority's chart of accounts does not conform with the Michigan Department of Treasury uniform chart of accounts for local units of government. We recommend the Authority follow the prescribed chart of accounts. We have provided examples of chart of account numbers and procedures on how to enter the numbers in the Authority's software.

Investment Policy

Michigan Public Act 20 of 1943 requires governmental units to formally approve an investment policy to conform to this act. The Authority does not currently have a formal investment policy. An example of an investment policy has been provided and we recommend that a policy be adopted by the Board as soon as possible.

We would like to acknowledge the courtesy and assistance extended to us by all the Authority's personnel during our audit. Should you have any questions with respect to the above comments, we would be pleased to discuss them with you at your convenience.

Very truly yours,
Smolinski & Christman, P.C.

Smolinski & Christman, P.C.

Smolinski & Christman, P.C.
Certified Public Accountants

Janice W. Smolinski, C.P.A.
Kevin R. Christman, C.P.A.
Mona C. O'Neil, C.P.A.
Daniel D. Rasmussen, C.P.A.
Ted M. Teller, C.P.A.

555 Michigan Street
Potoskey, Michigan 49770
(231) 347-5555
Fax (231) 347-5639

Adam B. Caron, C.P.A.
Troy A. Slater, C.P.A.

June 24, 2008

To the Board of Directors of the

Springvale-Bear Creek Sewage Disposal Authority:

In planning and performing our audit of the financial statements of Springvale-Bear Creek Sewage Disposal Authority (the Authority) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The material weaknesses listed below are being repeated from our communication dated June 22, 2007 for the December 31, 2006 audit. We believe the following constitute material weaknesses:

- The outside bookkeeper contracted by the Authority has the capability to perform monthly internal accounting functions and reports as required by the Board. However, neither the bookkeeper or the Board has the internal expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report.
- Currently, the majority of accounting functions at the Authority are performed by one person. As a result, the internal control system lacks certain checks and balances which are necessary to ensure that material errors or fraud do not occur without being detected on a timely basis. However, the cost of implementing an optimum segregation of duties environment at the Springvale-Bear Creek Sewage Disposal Authority is currently prohibitive. The accounting records and supporting information of the Authority are very well organized, documented, and maintained.

This communication is intended solely for the use of the Board of Directors of Springvale-Bear Creek Sewage Disposal Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Smolinski & Christman, P.C.
Smolinski & Christman, P.C.

